FOREX REVOLUTION

An Insider's Guide to the Real World of Foreign Exchange Trading

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The History of Forex (and Why You Should Care)

The Beautiful Market

Foreign exchange today may seem too complex for the average person to grasp. The images of the market that dominate the media—walls of blinking computer screens, screaming traders, giant blocks of money traded at the speed of light, defined by an intricate interplay of events—reinforce this perception. But these images are actually part of a façade, masking a relatively simple transaction.

At its heart, each foreign exchange is a trade—an exchange of one monetary unit (currency) for another. Dealers and investors may employ intricate strategies or use technical trading language

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and develop rich models, but that doesn't fundamentally alter the act.

Understanding this helps cut through the clutter, misperceptions, and mystery that surround this market. Very little of what is done in foreign exchange today is vastly different from how individuals have traded for thousands of years. The techniques and tools have changed, but the simple exchange remains the same.

Because foreign exchange is in fact so old, it is important to trace its roots, to explore how this market has evolved over the millennia. Individuals—kings and emperors, traders and dealers, common citizens and thieves—have employed all kinds of methods to use money and markets to their advantage. Their strategies have resulted in success and disaster. But all contain examples and lessons that will be helpful for the modern investor to understand this market.

This chapter also looks at the nature of money, how it has been used by different societies throughout history, and how its value can fluctuate. What emerges is the story of a long struggle between government and markets over who gets to control money—a struggle that continues to this day.

Lessons of History

One of the most famous and vivid channels of foreign exchange occurred along the fabled "Silk Road"—over which goods flowed back and forth between Asia, the Middle East, and Europe. The road started in Xian, a city in central China, and went by various trails west. Centuries ago, traders prodded columns of camels loaded with rugs, silks, and bags of aromatic spices that Europeans needed to season their dishes and delight their palates. Through the city's alleys and in its open market spaces, goods

were inspected, values suggested, and deals struck. Money and objects changed hands.

This kind of trade is the barter system, which is still the norm in many parts of the world. However, the barter system had flaws. For one, making individual trades was cumbersome and time-consuming. Each item had to be inspected and its worth determined before haggling could even begin.

Two, it was inefficient. Goods didn't always match up in value, so bartering required an extensive number of items to make the trade even. A bag of grain may not be exactly worth a lamb, so the trader would have to add a bottle of wine to even things out. This made things much more complex.

Three, the barter system could leave out vast parts of society. What happens if the farmer wants meat but doesn't need a pair of shoes? The farmer trades his grain with the butcher. But the shoemaker, who needs grain as much as the butcher, is left out.

There is a solution to the problems of the barter system, and many cultures developed it—currency.

The Roots of Modern Currency

Forget the idea that currency is a piece of colored paper with a picture of someone famous on it. Paper money as it now exists is a relatively new concept, and it probably won't survive our lifetimes. In cultural and historical terms, currency is something that any group mutually recognizes as valuable.

For example, the Aztecs prized cacao beans, which were used to make a delicious chocolate drink. Part of the beans' value derived from the fact that they were also practical. They could be transported relatively easily, were uniform, and made bartering simpler. If a trade was uneven, a merchant could throw in a scoop or two of beans.

The ancient Romans valued salt, an essential spice to liven up dishes and replenish the body during hot Mediterranean summers. Like the Aztec cacao beans, salt was also practical. It could be cut into small, uniform units and was accepted everywhere. Roman soldiers, who sweated during maneuvers under their leather and armor, were paid in salt. The Latin word for salt, *sal*, is the root of *salary*.

In North America, we still refer to one dollar as a *buck*—few understanding that *buck* once referred to deerskin, which was commonly used as an item of exchange in colonial times.

Everywhere, currency was determined by local conditions. East Asians often used rice, Mongolians used bricks of tea, and Native Americans in the Northeast used colored shells.

The introduction of currency marked an important advance in a society's economic life. Instead of simply trading items, people could determine value through something universal. Currency allowed exchanges to be more circular, rather than a chain of one-on-one transactions. The shoemaker could now sell his wares to the butcher for currency and then use that currency to buy the grain he needed.

Value, of course, is a relative term, and cultures often found that what they treasured did not inspire the same reverence in their neighbors. One tribe in Alaska used dog teeth as currency, something other tribes regarded as disgusting. The aristocrats of Yap, an island in the South Pacific, used giant sandstone slabs so large that they needed dozens of laborers to move them. For obvious reasons, this currency never gained wide use.

As ancient cultures grew more sophisticated and trade grew to unprecedented levels, they found themselves back in the same barter system as before, with all its faults. The problem was to find something that was recognized as valuable, even among different cultures with different languages and beliefs.

The solution to this problem appeared in 640 BC in a civilization on the coast of what is today Turkey. This invention would establish the first international currency and lay the groundwork for our modern economic system—the metal coin.

The small kingdom of Lydia had grown rich through its production of high-quality cosmetics and perfumes, which it sold to other lands throughout the eastern Mediterranean.

The Lydians were the first, it appears, to mint coins. Metal, of course, had long been recognized as a valuable substance by many cultures. Gold, with its alluring luster, its malleable quality, and the fact that it never rotted or rusted, was held in high esteem. As early as 2500 BC, Mesopotamian clay tablets carried inscriptions that recorded the use of silver and gold as payments. But these payments were usually in large quantities. Gold was too scarce and valuable to be used in small exchanges.

This changed when the Lydians began stamping the first coins, which were about the same size as a modern quarter but much thicker. Several could be easily carried around in a bag. These first coins were made from a naturally occurring mixture of gold and silver called electrum. To make sure everyone, including illiterate farmers, could determine the value of the coins, the Lydians stamped them with a lion's head.

It is difficult to overestimate the impact these coins made as they began to circulate among the empires that ringed the Mediterranean Sea. Uniform coins meant merchants did not have to use scales to measure metal, a time-consuming process. A glance could determine literally how much money was on the table. Even in 600 BC, traders knew the importance of time and convenience.

Lydia produced more coins, with newer versions fashioned of solid gold. Money begot money. Attracted by the standard coins, merchants began setting up their goods in a central spot where people could browse among different stalls for goods—dishes, beer,

olive oil, cloth. The market, not unlike the modern shopping mall, was born.

Although the Lydian empire soon crumbled, its innovation in using coins spread through the Mediterranean world. This was the first international economic system as we would understand it.

It is here that we can first see the revolutionary impact that money has had on society. Most ancient groups were small and organized around the principle of kinship. Going outside that society, because of fears, xenophobia, and misunderstandings, was rare. Most transactions involved one person speaking to another.

The value of money in the form of coins, however, was recognized between cultures. You did not need to speak the same language or have the same cultural background. Thus, societies could easily join and create an economy far more complex, diverse, and large than anything seen before.

In the late fourth century BC, Alexander the Great led his armies to victory through central Asia and into India. Alexander's empire was, for the first time in history, a commercial empire. Alexander did not just demand tribute from the conquered peoples. He yoked them into a new economic order by building cities with open markets in their center. Merchants quickly moved in, using the trusted Greek coins as a medium of exchange. The Greek language, in a heavily accented, simplified form, was used by merchants of different cultures to haggle and exchange goods.[1]

These characteristics are not too dissimilar from the world today, where international business is largely based on the dollar and deals made after a discussion in pigeon English. Alexander's period could be called the first era of globalization. Our modern era, with its markets and means of exchange, is not fundamentally different.

The Clash Between Governments and Markets

As the use of currency spread, governments began taking steps to exert their control over it. This should hardly be surprising. Whoever controls currency holds power, and governments almost always seek power.

For thousands of years, Chinese emperors relied on a bureaucracy and a powerful army to control the use of money in their kingdom. As far back as 500 BC, tokens made from copper or brass were issued and circulated as cash. These tokens, which were strung together on strings, were backed up by gold and silver held by the government. Private citizens were forbidden to possess these metals on their own. No one could refuse the tokens, and the state maintained absolute control over the monetary supply and its value. This system is quite different from the metal coins issued by the Lydians, which had intrinsic value and were difficult for any state to keep track of once they had entered circulation.

The tokens were eventually replaced by two products of Chinese ingenuity—paper and printing. Sometime in the first millennium, paper made from mulberry tree bark was stamped with the Chinese emperor's seal and backed up with gold. These bills, often the size of a modern sheet of notebook paper, were far easier to transport and use than the strings of bulky tokens. They are some of the first examples of paper money in history.

In the 1200s, most of China fell under the control of Mongolian emperors, whose vast horse armies would conquer much of Asia and terrorize populations as far away as Poland and the Middle East. The Mongolian emperors understood instinctively that loose money was a threat to their power.

Like the previous emperors, the Mongols issued paper money and forbade private citizens from holding any gold and silver on their own. Anyone who did not accept these bills was severely punished. Another threat were foreign traders, who could theoretically bring money into the empire and thus upset the state's monopoly.

Elaborate precautions were taken to ensure that this did not happen. Merchants entering China had to surrender all their money to a government official, who then paid the merchants' expenses with the emperor's paper money. Foreigners were kept under strict watch while in the empire. Sketches were made of them at the border for quick identification. Merchants had to report to the police whenever they stopped for the night and had to submit to searches each evening and morning.

The Chinese system of paper money held together as long as the emperor's power was absolute. But no government system survives forever. In the late 1300s, the Chinese Emperor Ming decided to pay the 100,000 artisans who lived in the Forbidden City and its 60,000 guards in paper money. Whenever more money was needed, more money was printed. Marco Polo was stunned to observe the emperor's bureaucrats stamping these slips of paper, which the Chinese used faithfully to exchange for real goods. But the faith was soon lost as the market was flooded with paper. By 1420, the emperor's paper money brought only 1/40 of its original value.

This story illustrates another trait of currency—its value fluctuates. Much of this depends on the laws of supply and demand. If a currency is too scarce—say, diamonds—there will not be enough of it to use in everyday transactions, and the economy will be strangled. But if a currency is too common, its value will plunge. If gold existed in great quantities in any streambed, for example, it would have no value.

Great influxes of gold have wrought great change to prices. When Spaniards in the 1500s brought back shiploads of gold from the Americas, the surge in gold ignited inflation and launched a price revolution.

This was unintentional. Most Spaniards were unaware of the economic relationship between an increase in the money supply and an increase in prices. But other leaders soon learned something that modern governments seem to understand intuitively—if you need more money, simply make more of it.

In the fifteenth and sixteenth centuries, both French and English kings found themselves heavily in debt. One, the dauphin in France, used his control over mints to melt down silver and reissue it as coins—mixed with a base alloy. Far more coins were dumped into the local economy, and the dauphin was able to pay his debts. Inevitably, however, inflation soon set in, and in Paris the coins were no longer trusted as a form of currency.[2]

In England, Henry VIII tried a similar tactic. He hoarded silver and then announced that new silver coins would be revalued higher, even as he added an alloy to make more of them. In the short run, the tactic worked, and Henry eventually took so much silver out of coins that they had to be coated to display a metallic sheen. Henry VIII is rightly remembered in history for many things. To economic historians, he is the author of "the Great Debasement."

Both Henry and the dauphin profited enormously from their debasement schemes, but the effect on common people—especially the poor—was destructive. The debased coins ignited inflation, raising the prices of everything from bread to livestock. The poor fell further and further into debt and were dispossessed of goods and homes. In England, the peasants revolted. Unrest, hardship, and war were the products of abusive monarchs.

These abuses generated a backlash, especially against the power monarchies had to manipulate the currency for their short-term goals. The English philosopher John Locke, champion of reason and the Enlightenment, made a novel proposal. He suggested that money was of a set value and that the value should be honored—regardless of what the country's rulers thought or desired. This was a radical idea, and one that the royalty did not appreciate. The king held the power of the purse, but this reform would effectively sew the purse shut. The market, not the king, would determine a currency's value, and the market had to be respected and its rules obeyed, or the people would suffer.

Understanding the long struggle between government and the market is critical to understanding the Forex market today. Although kings and queens no longer rule over their subjects and the treasury as they once did, governments still spend money voraciously. When deficits balloon and credit is ruined, they often resort to tricks rather than making the painful and necessary decision to rein in their appetites, raise taxes, or both.[3]

This is where the market comes in. Because money today holds no intrinsic value—it's simply an article of faith (our word *credit* comes from the Latin *credere*, to believe or put faith in)—someone must ensure that it is worth as much as a nation says it is. Forex investors, from the smallest to the largest, exercise the will of the market. It can be ruthless and sometimes scary, but it is also vitally necessary. Money is far too important to be controlled by government.

Of course, governments don't like to be told how to run their affairs, and they'll do virtually anything to retain control. In each case, however, the market is never wholly defeated. Black markets and underground trading schemes always grow up outside

government control, no matter how earnest or effective police surveillance is. The market is always seeking true value, a spot where it can reach equilibrium.

This battle between markets and government is never-ending. A currency is often regarded with patriotism and pride, not to mention as a symbol of legitimacy for the government. If a currency appears wobbly or devalues, so do a nation's leaders. This is why governments often openly detest currency speculators as ruthless parasites who cause and then profit from disorder.

It will never be safe to say that the market, or the governments, have truly won. The influence of Forex has caused a backlash. In 1978, Nobel Prize-winning economist Jame Tobin proposed that major economies levy a uniform tax on all foreign exchange transactions. The idea was called the "Tobin tax." Tobin said a small tax would allow currencies to be traded but would discourage currency speculators from shifting currency around the world simply to take advantage of tiny differences in value. Naturally, politicians, especially those who dislike the free market anyway, have taken up Tobin's idea. They say that speculators have little respect or regard for nations or cultures. As we have already noted, currency fluctuations can devastate a society and ruin budgets. The Tobin tax, if it is enacted, could be fairly described as governments' revenge.

In its defense, conservatives point out that the private market is a critically important check on government power. Market discipline keeps the government from dominating a society. In the most idealistic terms, Forex investors around the world are in a constant struggle to keep governments honest.

Trends That Rocked the Forex World

The Rise and Fall of the Modern Gold Standard

The horror and destruction of two world wars filled the minds of the men who gathered in 1944 in Bretton Woods, Vt. They were determined to set the world right again and lay the foundation for a new international economic order. The core of this system was the strict pegging of all western currencies—British pounds, French francs, German marks—to the U.S. dollar. The U.S. dollar in turn was based on a set amount of gold—hence, the modern gold standard.

The Bretton Woods system, however, was fated to ultimately collapse. The reason became starkly clear over time. Banks needed the U.S. dollar, which was pegged to gold, to establish security in their reserve banks. The central banks of Europe could not circulate more money in their own economies if that meant overrunning the number of dollars they held. This system depended, then, on the U.S. running dollar deficits with the rest of the world, and the number of dollars in circulation soon exceeded the amount of gold backing them up.

With more and more dollars in circulation, it became clear that the U.S.'s pledge to back up its paper money in gold was more and more hollow. By the early 1960s, an ounce of gold could be exchanged for $40 in London, even though the price in the U.S. was $35. This difference showed that investors knew the dollar was overvalued and that time was running out.

Investors were not the only ones to recognize the fundamental imbalance of the Bretton Woods system. American economist Robert Trifflin had first identified the problem in 1960—for which he has since been honored by having it named "Trifflin's Dilemma."

There was a solution to Trifflin's Dilemma for the U.S.—reduce the number of dollars in circulation by cutting the deficit and raise interest rates to attract dollars back into the country. Both these tactics, however, would drag the U.S. economy into recession, a prospect new President John F. Kennedy found intolerable.

As the politicians dithered, the problem grew worse. Other nations, especially France, exchanged dollars for gold, building up their reserves. Throughout the 1960s and sitting atop a pile of gold, France called for a return to the gold standard, rather than dependence on the dollar. This tactic was partly inspired by French resentment of American dominance in Europe. By 1968, French officials openly attacked the notion that an ounce of gold was still worth $35.

This caused ripples of unease in markets. In the late 1960s, the U.S. had flooded the world markets with dollars printed to pay for the Vietnam War. Other nations accused the U.S. of exporting inflation, and they chafed at a system that kept everyone in a financial straitjacket except the U.S.

The cracks in the Bretton Woods system could no longer be ignored. Dollars were flowing in Germany, bolstering the mark. The German Central Bank, determined to protect the German export-drive economy, sold marks to keep the currency's value down. But market forces were stronger than the bank. Eventually it stopped trying, and the mark was allowed to gain value. The Dutch followed and allowed their currency to also appreciate.

In August 1971, President Nixon acknowledged that the Bretton Woods system was finished. He announced that the dollar could no longer be exchanged for gold. The "gold window" was closed.

A last-ditch effort was made to save the system when the major powers met in December 1971 in Washington, D.C. to devalue the U.S. dollar against gold and other major currencies. The resulting

agreement, called the Smithsonian agreement, was not much of an improvement, despite President Nixon's description of it as the "greatest monetary agreement in the history of the world." Gold was reset at $38 an ounce, and currencies were allowed to fluctuate 2.25 percent, rather than just the 1 percent allowed by Bretton Woods. It was still not enough. The rates proved to be unsustainable. Within a few months, several countries decided to abandon fixed exchange rates and let their currencies float.

However, the decision to devalue the dollar broke the U.S.'s long-standing insistence that $35 would always be worth an ounce of gold. This effectively ended any pretense of a gold standard. In February 1973, the dollar fell 10 percent. The nations of western Europe linked their currencies, allowing a 2.5 percent fluctuation rate, in a system called the snake. They also linked their currencies to the dollar, permitting a 4.5 percent fluctuation rate, in a system called the tunnel.

In hindsight, the end of the Bretton Woods system was predictable. It was necessary to restore confidence in an international economy shattered by war, but the Bretton Woods system could not keep up with how that economy evolved. As European economies found their footing and grew again, the value of their currencies would naturally have to gain against the dollar. The system, however, did not have the flexibility. It was also unable to adapt effectively to changes in how people and institutions handled money. This is an old story—a replay of governments trying to use money for their own ends in the face of what the market wants. The collapse of the gold standard and Bretton Woods meant that markets had regained a measure of control over the value of currencies. Governments, however, would continue to try to direct the market.

It didn't take long for traders to see the potential for profits in this new world of currency trading. Even if the governments could maintain the snake and the tunnel, it still permitted fluctuations—and where there are fluctuations, there's a chance for a profit. In 1971, the International Monetary Market of the Chicago Mercantile Exchange was founded to trade foreign currency futures. Before then, there was little chance to trade currencies except through the banks. A new era had dawned.

This was clear little more than a decade after the collapse of Bretton Woods. The U.S. economy was booming, but the dollar had risen too far too fast. In 1985, the G-5, the most powerful economies in the world—the U.S., Great Britain, France, West Germany, and Japan—sent representatives to a secret meeting at the Plaza Hotel in New York City. The dollar was simply too high, crushing third-world nations under debt and closing American factories because they could not compete with foreign competitors.

Although the meeting was supposedly secret, news of it leaked out, and rumors soon made their way through the markets. In response to reporters' questions, the G-5 released a statement that they would encourage an "appreciation of nondollar currencies." This became known as the "Plaza Accord." Couched in this diplomatic language was the hope that the dollar would decline slowly and in an orderly manner, allowing everyone to adjust to the dollar's new value. But the markets are rarely orderly. Instead of the hoped-for gentle fall, traders punished the dollar, sending it down far faster than anyone had expected. However, the Plaza Accord could rightly be called a success. In the two years after the agreement, the dollar fell more than 30 percent. The U.S. trade deficit narrowed, and the countries met again, this time in Paris, to sign another agreement—the Louvre Accord. This time, the nations agreed to halt the decline of the dollar.

The Rise of the Euro

Although the U.S. dollar has been battered or has fallen in value, its role as the world's reserve currency—the anchor of global commerce—has never been challenged. Until now. The story begins after World War II, when the European nations decided to ensure peace by knitting themselves together.

In 1957, the European Economic Community was established in a landmark treaty signed in Rome. Six countries—France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg—signed the Treaty of Rome. It formed the bedrock of the European Community and was the true beginning of the European Union and the euro.

Several other treaties followed, each one pulling Europe closer together. The Maastricty Treaty, signed in the Dutch city on February 7, 1992, amended the Treaty of Rome and established the European Union, led to the creation of the euro, and established a more cohesive whole that included initiatives on foreign policy and security. The treaty, which called for bold steps to a closer union, was by no means a certain thing. Only 51% of France voted in favor, and Denmark rejected the first version.

Today, however, the euro is circulating in dozens of countries and is used by hundreds of millions of people. If the U.S. dollar is ever unseated as the world's reserve currency, it will be the euro that does it.

The Internet Trade Revolution: Banks Hated It, Speculators Loved It, and the Market Demanded It

In the 1990s, the currency markets grew more sophisticated and faster because money, and how people viewed and used it, was changing. Bankers and merchants have always sought ways to

speed up the movement of money. It meant more security, more flexibility, and more profits. A big leap was made with the invention of the telegraph in the 1800s, which allowed people to wire money within a vast network. This first instance of electronic transfer, however, was not commonly used.

After World War II, large numbers of Americans began paying bills with checks rather than with cash. Banks looked for ways to speed up the movement of these payments from the payer to the bank and back to the creditor.

Because sorting and handling bills was relatively inefficient and costly, banks began to turn to a new form of money—electronic. In 1971, the NASDAQ stock exchange opened as a computerized system for selling and buying stocks. By the late 1970s, the banks of the Federal Reserve moved large amounts of money between themselves electronically.

The notion that money was not just a piece of paper, but also something that could assume electronic form, was accepted fitfully by the public. A major advance occurred in 1975, when the government began depositing Social Security checks directly into seniors' accounts. The growth of credit card use also helped.

But it has only been in the past 15 years that the true potential of electronic money has been tapped. The reason is a vastly improved communication infrastructure that has linked the world in a web of fiber-optic cables. This web carries billions of bits of data at the speed of light. More drastic, however, is that the Internet allows anyone to hook into the vast, humming network of communication. Real-time data and general information take the price-discovery process away from interbank control. An individual sitting alone in his home can find at the click of a button an accurate price that only a few years ago would have required an army of traders, brokers, telephones, and squawk boxes. This is the force behind the growing Forex revolution.

These advances in communication came at a time when the former divisions that separated the world into different parts crumbled. The Berlin Wall fell, the Soviet Union collapsed, and hundreds of millions of people joined the liberal, capitalist world, led by the U.S. This process—which has been imperfectly called "globalization"—has been monetary, cultural, and social.

For the foreign exchange markets, everything changed. Currencies that previously had been shut off in totalitarian political systems could be traded. Emerging markets such as those in Southeast Asia flourished, attracting capital and currency speculation.

The 1990s were years of enormous economic growth, but they were also rocked by several crises—in Mexico, in Russia, and in Asia. We will look into the circumstances behind these crises, and what a currency investor can learn from them, later in this book.

What is important to note now is that the speed and ferocity of these crises were unprecedented, and they mark the changes wrought by both technology and the inclusion of societies in the world economic system.

Today, money has moved beyond paper. It exists in bits and bytes, shot around the world at the speed of light. In fact, currency has actually been reduced to a credit instrument, because in retail Forex no actual currency is exchanged. This advance further streamlines the process. But despite the complexity of the international monetary system, it can still be boiled down to one simple transaction—a trade. In currency markets, there must always be a buyer and a seller, a winner and a loser. That partly explains the international appeal of currency trading. People around the world trade, no matter where they live or the style of their society. Virtually everyone inherently understands the currency market. It is one of the oldest forms of the market.

As this chapter has shown, the trade is an ancient and fundamental economic interaction, but the way trades are made today on

the modern foreign exchange market is quite new. For most of history, trades were made between two or more people—but usually face to face. Merchants in the eighteenth century gathered in the coffeehouses of London. In New York, traders met under a tree on Wall Street. The telephone changed but did not radically alter this relationship. Orders were carried over the phone, but people still knew the face (or voice) of the person on the other end of the line.

The Internet, which has been used popularly for scarcely a decade, has changed this system completely.

For the first time, relevant information was not posted by weary travelers or executives flying back on Pan Am from the Orient. Individuals and traders could get live data on CNN, Reuters, and Bloomberg. A vast amount of information on markets is now available, often free of charge and easily accessible from home via Internet news sites or 24-hour cable financial news networks. For most of the previous decades, this information was buried in the handwritten ledgers, orders, and charts kept by clerks in giant banks. The banks, naturally, used this information for their own purposes, and in foreign exchange that meant price discovery. They were often the only ones to have an overview of the market, and they made a nice, safe profit. Investors, on the other hand, operated partly in the dark. It took longer for the market to determine an investment's true price. Hence, margins and bid-offer spreads were wide.

The Internet has made it possible for a rumor to spread around the world, and be discredited, within seconds. We are at a turning point in the history of finance. To the average small investor, the workings of high finance have often appeared intimidating, incomprehensible, or inaccessible. Wall Street was an exclusive club in which, by privilege of standing or wealth, favored insiders controlled money and information and made themselves rich.

Small investors were also kept out by relatively high-commission fees to trade through a broker. Now, the Internet provides the same service, virtually for free. The Internet provides rates and price spreads virtually instantaneously, 24 hours a day, seven days a week. Small Order Execution System (SOES) and the dot-com era of the '90s brought Wall Street to Main Street. Everyone from day traders to church groups became experts in U.S. equity markets. Now Forex will introduce the U.S. to the global marketplace.

Seeing the World Through Forex

This chapter opened with a description of the Silk Road 1,000 years ago. A *New York Times* reporter recently visited a city on the old route and wrote of the same mixture of people and goods that had characterized it centuries ago. The patrons who had crowded into local restaurants for dishes of lamb kebab and stew "seem as though they could have been chosen by casually throwing darts at a map of Asia."

"There are alluringly dressed women with black hair, fair skin and striking blue eyes who look passably Russian," wrote the reporter. "There are men with heavily lined, tea-colored faces and brush-thick mustaches who resemble Afghans. There are Turkish-looking Uighurs in Muslim skullcaps and robes and mid-length beards."[4]

Scenes like this are occurring all over the world. Trade is flowing again, released by a communications revolution and new geopolitical realities. Participating in Forex is to join this process, to see the world for the vibrant market that it is. Having an appreciation of this will allow you to see opportunities, anticipate movements, and be a better trader.

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